1982 ANNUAL REPORT

IN MEMORIAM

In 1982, two former General Managers of the corporation passed away—Herb Hammond, who was General Manager from 1953 to 1963, and J. O. Dutton, who served from 1965 to 1972. These men guided the corporation through most of its formative period, and the national reputation they earned demonstrated the success of their efforts. They will be missed.

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 1, 1983

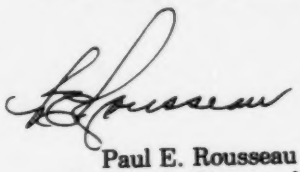
To His Honour,
The Honourable C. Irwin McIntosh,
Lieutenant-Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 1982, including the financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Saskatchewan Government Insurance Act.

I have the honour to be, Sir,

Your obedient Servant,



Paul E. Rousseau
Minister in Charge of
Saskatchewan Government Insurance

CHAIRMAN'S MESSAGE

1982 was a year of transition and reorientation for Saskatchewan Government Insurance. This is understandable in light of the change in government in April and the subsequent appointment of a new Board of Directors. This coupled with a major loss in general insurance operations due to summer catastrophes and assumed reinsurance made a complete review of the corporation imperative.

Following this review, the Board set out a clear objective for SGI's general business operations. This objective is to provide Saskatchewan residents with high-quality property casualty insurance services at a reasonable cost. Only an efficiently run, profitable company can provide these services effectively. The establishment of a businesslike approach to management is a prerequisite to future development.

While the financial results in general business had a negative effect on SGI, the Automobile Accident Insurance Act operations were more encouraging. The accumulated deficit in the rate stabilization reserve was reduced by nearly $10 million in 1982. However, controlling claims costs remains a pressing issue for the auto fund and for the corporation as a whole. The return of double-digit percentage increases in the cost of auto fund claims is a matter of concern.

A source of great satisfaction to me during the year was the involvement of the Board in the policy making process. The Directors were able to set goals for the corporation that will make it a more effective and efficient operation.

I am pleased that the Board was able to deal with the issue of management succession at the end of the year. The appointment of Don Black as President brings to the corporation the strong financial and managerial leadership it requires. It will take time to overcome the problems facing SGI, but I am confident that the new President and Board, working together, will be successful in overcoming the corporation's losses and achieving its goals.

Hon. Paul L. Rousseau,
Chairman

BOARD OF DIRECTORS

Hon. Paul E. Rousseau
Chairman

D. A. K. MacLean
Vice Chairman

Gary Drummond
Secretary to the Board

Arden F. B. Erman
Maple Creek

Eli L. Fluter
Regina

James N. Goring
Biggar

Ted Henson
Saskatoon

Ronald J. Hicks
Saskatoon

Ronald W. Jeffery
Weyburn

Donald R. Leier
Saskatoon

Ray Malinowski
Yorkton

Alan E. Nicholson
Regina

George L. Shaw
Esterhazy

Ron L. Skinner
Yorkton

Edward Sulewski
Paddockwood

Allan W. Wager
Saskatoon

PRESIDENT'S MESSAGE

1982 was a difficult year for the corporation. But despite the problems facing it, SGI is a fundamentally strong and stable company. Its decentralized claims network and staff of insurance experts provided good service to the province and will continue to do so in the years ahead. Our financial performance, while influenced by generally poor industry conditions, was largely due to two factors over which we had little control.

We also faced an extraordinary loss of $32.3 million in assumed reinsurance. The result is a net loss in our property casualty operations of nearly $39 million.

The loss in assumed operations is primarily due to agreements SGI entered into in the 1970s, which have since been cancelled. The corporation acted during 1982 to severely tighten its assumed reinsurance underwriting guidelines to ensure that losses of this magnitude will not recur.

Even in a normal year, major storms can mean the difference between a profit and a loss for SGI. Our concentration of business in one geographical area makes us particularly vulnerable to loss from catastrophe. In 1982 there were serious wind and hailstorms in Saskatoon and Prince Albert. Together they meant a direct net of ceded loss in general business of $7.3 million, or more than a third of our total underwriting loss for the year. When investment income is taken into account, the corporation's Saskatchewan-based operations would have broken even had the storms not occurred.

The effect of assumed operations on the bottom-line should not obscure a continuing problem of unacceptable performance from most of our product lines. While this is an industry-wide problem, we intend to continue taking independent action to ensure that SGI improves the efficiency of its operations and makes a profit. During 1982, the corporation initiated a product by-product review of all its general insurance lines to guarantee that our products generate underwriting profits and remain responsive to changing needs. We also undertook a review of all aspects of the corporation's operations. Our objective of developing a lean, cost-effective company, able to provide improved service to the people of Saskatchewan, led us away from such non-related activities as life insurance and out-of-province operations. Future activities will be judged on their relevance to the corporation's objectives and on their return on investment.

In short, we will continue to stress the basics: sound underwriting, sound pricing and a businesslike approach to all of SGI's operations. Growth and new ventures are not ruled out, but they will take place within the areas of the property casualty business where we have developed expertise. Our guiding rule will be profitable innovation in our current product lines, rather than expansion into new areas. In this regard, SGI's unique knowledge of the province's insurance needs, its agency force and its service centre network are considerable strengths. Our work in such areas as guaranteed replacement cost coverage shows that such innovation is both possible and profitable.

Some of the corrective measures are long-term, but I am confident that the actions we have taken will stabilize the corporation. It is up to SGI's employees and its agency force to see that profitability is restored. The task will require a tremendous commitment from all concerned, but my impressions in my short time as President convince me of this commitment. We look forward to the challenge.

Donald W. Black,
President

PROPERTY AND CASUALTY OPERATIONS

Five Year Comparison of Financial Statistics
Property/Casualty Operations* (Millions of $)

	1982	1981	1980	1979	1978
Direct Premiums Written	$114.1	$107.0	$93.0	$80.8	$72.2
Net Premiums Written	$94.9	$87.8	$76.6	$65.2	$58.3
Direct Premiums Earned	$111.0	$98.6	$84.7	$75.9	$72.0
Net Premiums Earned	$91.5	$81.0	$69.6	$61.1	$57.5
Premium Taxes	$3.0	$2.6	$2.2	$2.0	$1.9
Grants in Lieu of Taxes	$1.2	$1.0	$.9	$.7	$.4
Net Claims Incurred	$81.7	$67.1	$54.7	$43.0	$38.5

*Excluding assumed business

Major wind and hailstorms in Saskatoon and Prince Albert were only part of a very active year for SGI claims staff, including adjuster Dale Ward. Claims personnel handled more than 800 auto and 200 general claims each working day of 1982.

The role of the independent agent is central to the corporation's past growth and to its rebuilding plan. Virtually all SGI policies are sold by a network of more than 460 agents, who are independent local businessmen and women, concerned with the needs of their clients and knowledgeable leaders in their communities. Despite adverse economic conditions in 1982, SGI agents again showed their effectiveness by writing more than $100 million in premiums for the second consecutive year. In return, the agents earned $17.4 million in commissions.

SGI's commitment to its agency force goes beyond the payment of a commission. The agent is the customer's first resource, and much of the corporation's marketing success depends on the agent being well-informed, well-trained and provided with a portfolio of high-quality insurance products.

The addition of the Homeowner's Guarantee to the corporation's personal lines strengthened the product portfolio in 1982. Similar to the guaranteed replacement cost coverage on commercial buildings introduced in 1981, the new product enables a homeowner to calculate the full replacement value of his home with an easy-to-use worksheet. A policyholder-administered appraisal keeps costs to a minimum, yet allows SGI to guarantee the repair or reconstruction of the home regardless of the face value of the policy. Inflation has had a serious impact on construction costs, making underinsurance increasingly likely. SGI's new product offers a simple solution that is both desirable and affordable.

SGI agent Jim Crawford (right) prepares an Agro Pak application with Watrous area farmer Robert Stokke. Jim also used the opportunity to promote SGI's newest product, the Homeowner's Guarantee.

Expanded communications and development programs for agents were also advanced in 1982. A provincial agents' council was created to provide a formal means of discussing the corporation's plans and identifying issues of concern to the agency force. Members are elected by their fellow agents. Daily contact between agents and marketing and executive personnel continues to be of value to the corporation as an informal source of information. Because of their central role, agents are SGI's primary source of information concerning customer needs. Often, agents are in an excellent position to make suggestions that will improve the design or marketability of certain products — as they did in November 1982, when they helped fine-tune the Homeowner's Guarantee. Sales of the product in the single month following its modification were nearly equal to those of the previous seven months combined. It appears that this increased sales momentum will continue into 1983.

The major communications and training event for agents continues to be the annual convention. While retaining many of the important social activities, the convention in recent years has increasingly emphasized the exchange of practical information on agency management and marketing techniques, drawing on industry consultants as well as the corporation's own experts. A highlight of the 1982 convention was the introduction of a special award recognizing the contribution of agents who have represented SGI for 35 or more years.

SUPPORT SERVICES

Much of the service an agent can provide to the customer is determined by the service the agent receives from SGI. Improved staff efficiency and productivity remains a top priority for SGI and technological innovation has led the way to achieving this goal.

The impact of word-processing equipment on the workplace was an exciting development in 1982. This equipment, increasingly common in all industries, allows inputting, editing and storage of information, reduces turnaround time and increases overall staff productivity. This annual report, for example, was composed on a word-processing terminal and sent electronically to phototypesetting equipment. Future applica-

tions of this technology may include linking the Regina head office computers with terminals in agents' offices.

Of more immediate benefit to agents is the development of the Personal Lines Underwriting System (PLUS). An on-line system, PLUS replaces older, more labour-intensive policy preparation methods, reducing turnaround time to a matter of days from several weeks. In addition to lowering administrative costs, the new system has steadily decreased underwriter errors.

The corporation expects PLUS to have an even greater impact as it expands into other policy areas. Other enhancements will eventually provide on-line access to policy information and claims history for coverage verification and agent inquiries.

CLAIMS SERVICE

For the corporation, service after a claim is as important in developing customer satisfaction as service provided by an agent. Filing a claim is the only direct contact most people have with SGI, and many come to judge it on the basis of contact with one individual — the adjuster. If that person is courteous and efficient, the corporation benefits.

A claimant is frequently under considerable stress when filing a claim. In addition, many have preconceived opinions about the treatment they will receive. Recognizing that considerable patience and understanding are needed to deal with such situations, the corporation began customer-relations training for its claims staff in 1982. As well, the handling of claims inquiries and complaints was assigned greater importance. While the corporation is not always able to do what the customer wants, its objective is to ensure that claims are settled fairly, quickly and conclusively.

SGI operates 16 claims centres in 13 communities throughout the province. The strength of this decentralized network was shown once again in 1982. On August 11, a severe wind and hailstorm struck Saskatoon. Three days later, a second storm hit Prince Albert. Because of its claims force, SGI was able to dispatch adjusters immediately from other centres to handle the additional load, which totalled approximately 8,000 auto and 6,100 non-auto claims.

Largely because of the two storms, total claims activity increased by 10.8 per cent during the year. SGI claims staff processed about 1,000 claims each working day of the year.

Most of the growth was in A.A.I.A. and extension auto claims, which totalled 200,292, up 13.4 per cent from the previous year. There were 56,758 non-auto claims, an increase of 1,355 or 2.4 per cent.

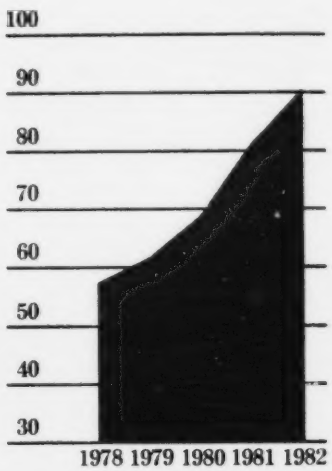
FINANCIAL PERFORMANCE

Sales performance in 1982 was slightly below expectations, and policies in force declined by 2 per cent to 480,207. However, valuation and rate increases resulted in direct written premiums of $114 million, up $7 million from 1981. This was below the level targeted at the beginning of the year, due to reduced economic activity in the province which placed a strain on discretionary income.

It is likely that the same factors contributed to the decline in policies in force, although SGI's move to more realistic pricing levels did have an adverse influence on its market share.

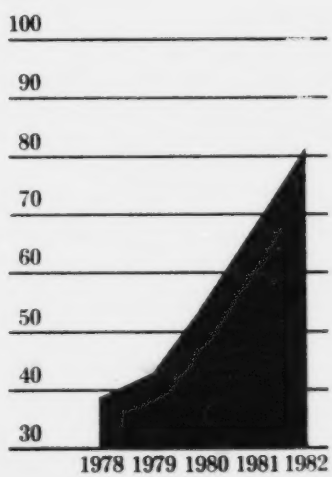
The basic problem in the insurance industry continues to be an inability to react to inflation-driven claims costs because of intense price competition. Companies continue the unwise practice of pricing their products in an attempt to maximize cash flow — and therefore investment income — rather than underwriting profit. While there is some hope that rates may finally return to sensible levels as interest rates fall, the rate war was accompanied by a declining standard of risk selection, resulting in increased claims. While its underwriting guidelines remained relatively high, SGI was not immune to the trend, and the cost of

Net Premiums Earned*
Millions of $



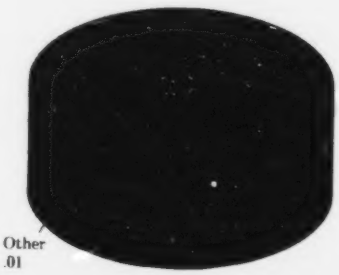
*Excluding assumed business

Net Claims Incurred*
Millions of $

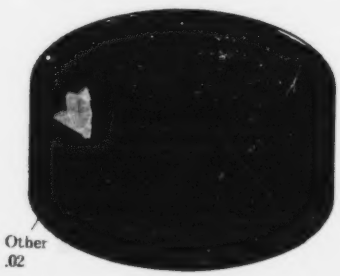


*Excluding assumed business

Sources of Premium Income*



Sources of Claims*



*Saskatchewan-Based Operations

Five Year Comparison of Claims Activity

	1982	1981	1980	1979	1978
Auto (A.A.I.A. and Extension)	200,292	176,665	188,481	186,311	157,265
General (Excluding Auto Extension)	56,758	55,403	54,880	52,950	42,356
Total	257,050	232,068	243,361	239,261	199,621

claims quickly outstripped growth in premium income. On its Saskatchewan-based business, net premiums earned increased by 13 per cent to $91.5 million, while net claims incurred grew by 21.8 per cent to $81.7 million. As a result, the earned claims ratio (the ratio of net claims and adjusting costs to net premiums earned) increased to 89.4 per cent from 82.9 per cent a year earlier.

Much of this increase can be attributed to the two summer storms. Recoveries from ceded reinsurance managed to soften the impact by $3.4 million, but the net storm loss ($7.3 million) is more than the amount by which the underwriting loss increased. The underwriting loss grew to $21.4 million in 1982 from $14.2 million in 1981. Investment earnings of $14.2 million and other income of $748,000 fell far short of closing the gap, and the corporation ended the year with a loss of $6.5 million before assumed reinsurance operations are considered.

Storm losses aside, performance from nearly all product lines continued to be disappointing. Traditionally, the corporation's underwriting profits are either made or lost on farm, personal lines (principally Home and Tenant Paks) and auto products. These three areas account for 80.8 per cent of net premiums earned in 1982 and 92.9 per cent of all policies in force.

Personal lines and auto policies remain especially troublesome. Despite rate and valuation increases, which caused net premiums earned to grow by 12.8 per cent for personal lines and 10.3 per cent for auto, the cost of incurred claims rose by an alarming 39.2 per cent for personal lines and 30.1 per cent for auto. Both policy types had earned claims ratios of approximately 100 per cent.

Performance from farm lines was virtually unchanged from 1981, while commercial lines improved slightly due to selective rate increases and stricter underwriting guidelines. SGI's other product lines (general casualty, bonds and accident) showed a marked improvement, although results are still unacceptable, with loss ratios far in excess of 100 per cent.

PRODUCT REDEVELOPMENT

Today, people require more insurance than ever before. Inflation increases the need for financial security even as it erodes the value of the protection held by most clients. But economic uncertainty has limited the amount of money people can or will commit to insurance. Thus, for a company seeking to restore underwriting profitability, higher rates may not be enough and may result only in an additional burden for the consumer.

SGI sees a two-fold solution to the problem. In underwriting terms, rates must reflect expected claims costs and be more selectively applied. At the same time, product design must allow

Rod MacIsaac, an adjuster in the Regina Commercial Claims Centre, explains the claims process to a policyholder. Customer relations training was a major activity in the Claims division in 1982.

the consumer greater flexibility in the trade-off between price and desired coverage. It is the corporation's view that while it has an obligation to see the customer properly insured, the customer should not be forced to buy unneeded coverage. Reaching this balance requires a continuing review of all product lines to identify the true cost of each coverage element and an innovative approach to ensure that product designs remain appropriate to changing conditions.

While it will take some time before the initial review is complete, the corporation took action in the last quarter of the year to improve the performance of its major product lines. Changes in rates and rating methods were introduced for SGI's Tenant Pak and Commercial Auto policies on October 1. Tenant Pak changes included an increase in minimum insurance requirements and a refinement of the location rating system, following an analysis of claims information. At the same time, liability coverage in both policy areas was increased to $300,000 from the previous basic limit of $100,000, which recent damage awards and trends in the insurance industry had made inadequate.

A month later, changes to SGI's Auto Pak clearly suggest the corporation's approach in addressing the problem of coverage versus price. Glass claims from flying stones and other road hazards had become a substantial and growing portion of all Auto Pak claims. Yet for many motorists, replacing chipped or broken glass was essentially a maintenance item, not much more expensive than a new exhaust system or a set of shock absorbers. There were also indications of abuse of the coverage by some people.

SGI dealt with the problem by making the coverage optional. By doing this, the corporation was able to raise liability coverage to $500,000 from $300,000 and pass some savings on to its policyholders. For motorists who require glass coverage, it is available at a rate more in keeping with the cost of claims.

Guaranteed replacement cost products, such as the Homeowner's Guarantee, are part of the corporation's obligation to make sure that the customer remains properly insured in times of inflation. Refinements to the product in November provided increased liability and contents coverage to more suitable levels. Rates were also adjusted in light of the increased amount of protection purchased.

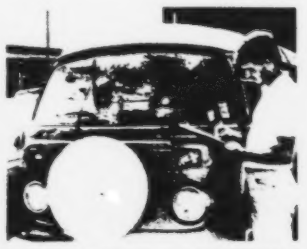
These steps are only the beginning of SGI's redevelopment of its product mix for optimal underwriting profitability. SGI's Technical Underwriting division and product management teams will continue to evaluate each product, and the corporation will continue to take necessary action to achieve its objective. SGI is prepared to surrender market share if the alternative is a continuing underwriting loss.

INVESTMENT AND OTHER INCOME

In 1982, the corporation's Saskatchewan-based investments totalled $100.5 million. The total long-term investment portfolio, including a net investment in capital lease of $14.6 million, grew by 7.3 per cent in 1982 to reach $175.3 million.

The portfolio, together with cash flow from insurance operations, produced direct net of ceded investment income of $14.2 million for general business in 1982. This was slightly lower than 1981, and is partly due to declining interest rates and reduced funds available after $15 million in equity advances were repaid to the Saskatchewan Crown Investments Corporation in the first quarter of the year.

SGI's primary source of other income is from its Salvage division, which recycles and sells auto parts, whole vehicles and general claims salvage. The division's five salvage depots, in Moose Jaw, North Battleford, Regina, Saskatoon and Yorkton, processed 8,821 vehicles in 1982 and paid $3.0 million to the A.A.I.A. fund, where it was used to reduce the total cost of claims. In 1982, on sales of nearly $8



The August 14 hailstorm meant booming business for Prince Albert glass and body shops, such as this one located in sight of the SGI Claims Service Centre.

Independent businesses, like Lumsden-based Casey Insurance, involve SGI at the community level and play a vital role in its marketing plan.

million, the division achieved a profit of $609,000.

ASSUMED REINSURANCE

Reinsurance is the function of insuring the risks of other insurers. SGI has engaged in both aspects of reinsurance — ceded and assumed — since the late 1940s. Ceded reinsurance (other companies insuring a portion of SGI's risks), which is used to reduce the corporation's claims exposure, falls into the underwriting area. Assumed reinsurance (SGI's assumption of the partial risks of other insurers) operates as a separate profit/loss centre.

Conditions in the international assumed reinsurance market continue to parallel those in the domestic property/casualty industry, and despite a reduction in SGI's level of assumed activity, results continue to be negative. While earned premiums declined by 10.4 per cent to $13.5 million as a result of stricter underwriting, claims attributable to previous underwriting years produced a loss on assumed operations of $32.3 million.

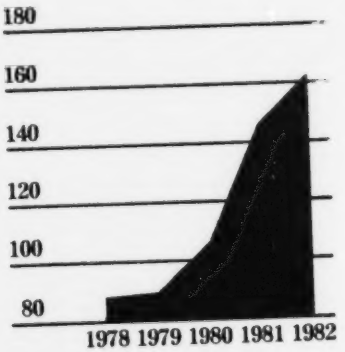
It is apparent that the loss on assumed business is the single most important factor affecting the corporation's financial performance. SGI's management and Board took action during the year to stabilize assumed results and ensure that assumed operations would not have such influence on the corporation as a whole. While a loss of this magnitude will take a number of years to absorb, SGI remains confident that a program of sound underwriting, cautious growth and close attention to cost control, together with its special position in the Saskatchewan market, will enable it to continue serving the needs of its customers in a sound and effective manner.

THE AUTOMOBILE ACCIDENT INSURANCE ACT

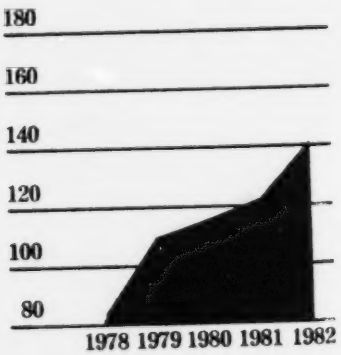
Five Year Comparison of Financial Statistics
Automobile Accident Insurance Act (Millions of $)

	1982	1981	1980	1979	1978
Premiums Written	$170.4	$163.7	$119.2	$92.9	$88.1
Premiums Earned	$161.9	$146.1	$107.2	$90.6	$88.6
Claims Incurred	$141.4	$123.7	$116.5	$110.7	$83.8
Premium Taxes	$4.9	$4.4	$3.2	$2.7	$2.6

A.A.I.A. Premiums Earned
Millions of $

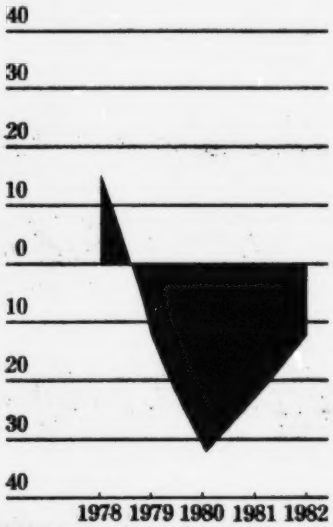


A.A.I.A. Claims Incurred
Millions of $



SGI maintains its own force of appraisers and adjusters to provide province-wide service. Shown here is Regina Commercial Claims Centre appraiser Steve Chesko.

A.A.I.A. Rate Stabilization Reserve
Millions of $



The Automobile Accident Insurance Act operates as a self-sustaining entity, funded by and operating for the benefit of Saskatchewan drivers and owners of licensed vehicles. In its 36 years, the auto fund has experienced 16 years of deficit and 20 years of surplus operations. Saskatchewan Government Insurance administers the fund on behalf of the province, and its operations are separate and distinct from the corporation's property/casualty business.

Unlike the competitive business, surpluses and deficits are retained in a rate stabilization reserve and carried forward into future years. A surplus in the reserve is used to stabilize rates or improve benefits, while a deficit must be liquidated through rate increases or reductions in claims and other operating costs. The long-term objective of the auto fund is to operate on a break-even basis.

The auto fund provides basic insurance protection, including accident benefits, own-vehicle damage and third-party liability. The insurance and licensing function is provided by a network of license issuers throughout the province, who are supervised by the administrator's Motor Vehicle division. Issuers are paid a flat commission per transaction rather than one based on premium amount. In this way, delivery costs of the fund are kept to a minimum. Rate-making and other underwriting functions are provided by the A.A.I.A. Underwriting division, while claims service is provided through the administrator's claims centres.

The auto fund continued its recovery in 1982. The deficit in the rate stabilization reserve, which stood at $33.5 million in 1980, had declined to $12.6 million by the end of 1982. Yet in underwriting terms, the year was not particularly good. The increase in earned premiums of 10.8 per cent (to $161.9 million) was more than overcome by a 14.4 per cent growth in claims incurred, which reached $141.4 million in 1982. As a result, the earned claims ratio (87.4 per cent) increased for the first time since 1979, due in part to storms in Saskatoon and Prince Albert. Net losses from these August storms were nearly equal to the $3.7 million underwriting loss sustained by the auto fund in 1982. The figure would have been substantially higher had the administrator not acted early in the year to purchase catastrophe protection for the fund.

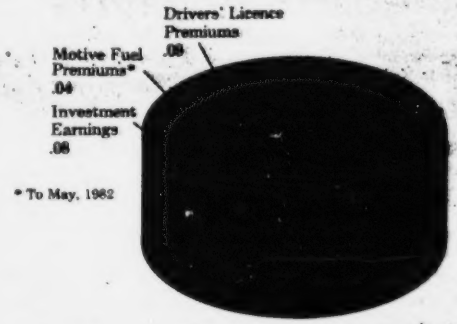
The A.A.I.A. receives revenue from driver and vehicle license premiums as well as driver surcharges. Until May 8, 1982, it was also allocated a portion of the province's motive fuel tax. On that date, the tax was removed by the provincial government. The loss of this revenue, which represented 13 per cent of the fund's income in 1981, was partially overcome by investment income of $13.7 million.

The loss of future revenue from the motive fuel tax can be substantially offset in future years by improving efficiency in the administrator's operations and by focusing more closely on controlling claims costs. In this regard, the Automobile Research Centre and the Special Investigation Unit continued to work closely with the Claims division in 1982 to identify potentially fraudulent claims.

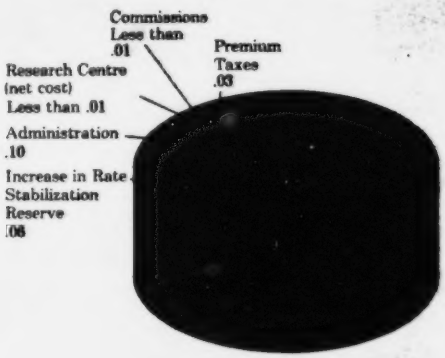
Own-vehicle damage claims under Part III of the Automobile Accident Insurance Act account for most of the dollars paid out in auto fund claims. Controlling them remains a major challenge for the administrator. The Crash Parts Price Index, an indicator of the cost of commonly-used auto parts, continued to show a double-digit increase, with growth of 13.3 per cent in 1982. Inflation had a similar impact on the real value of the deductible, which has remained unchanged for nearly two years. The result was an increase in the number of claims and a further drain on the fund's resources. Projections show Part III claims will continue to lead all others for the foreseeable future.

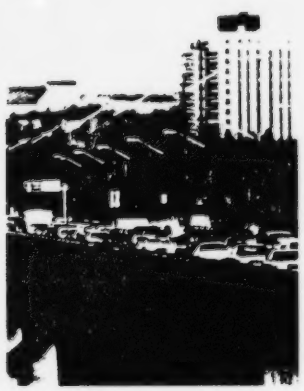
After two years of rate increases in excess of 20 per cent, auto fund rates rose by a modest 7.2 per cent in 1982. Future increases are expected to be made on a reasonable and regular basis as the administrator continues to refine its risk-based rating structure. As with other utilities, future rate changes must be approved by the Public Utilities Review Commission, which will allow public discussion of the administrator's proposals.

Sources of the Auto Fund's Revenue Dollar



Uses of Revenue Dollar


Commissions Less than .01
Premium Taxes .03
Research Centre (net cost) Less than .01
Administration .10
Increase in Rate Stabilization Reserve .08

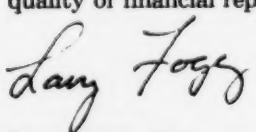


RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements have been prepared by the management of the corporation in conformity with accounting principles generally accepted in Canada. The financial statements have been examined and approved by the Board of Directors. The independent auditor has performed an audit of the company which has enabled him to express his opinion on the financial statements of the company. This opinion is shown on page 22.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An Audit Committee composed of members of the Board of Directors meets periodically with financial officers of the company and the external auditors. The independent auditor has free access to this committee, without management present, to discuss the results of their audit work and their opinion on adequacy of internal financial controls and the quality of financial reporting.



Larry Fogg, C.A.,
Treasurer

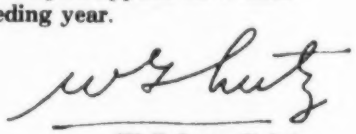
FINANCIAL STATEMENTS

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan:

I have examined the statement of financial position of Saskatchewan Government Insurance as at December 31, 1982 and the statements of retained earnings, Automobile Accident Insurance Act rate stabilization reserve, operations and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Regina, Saskatchewan
March 1, 1983

W.G. Lutz, F.C.A.,
Provincial Auditor.

STATEMENT OF FINANCIAL POSITION

December 31	1982	1981
Assets		(Thousands of $)
Cash and Investments Maturing Within One Year	$73,604	$72,624
Accounts Receivable	31,373	32,010
Prepaid Expenses and Inventories	17,679	15,587
Long Term Investments (Note 1)	160,665	148,786
Net Investment in Capital Lease (Note 1)	14,615	14,615
Property, Plant & Equipment (Note 4)	31,925	32,531
	$329,861	$316,153
Liabilities		
Accounts Payable & Accrued Charges	$24,743	$21,825
Unpaid Claims (Notes 1 & 5)	161,532	119,042
Unearned Premiums	133,621	121,459
	319,896	262,326
Capitalization		
Advances (Note 3)	57,000	72,000
General Insurance—Retained Earnings (Deficit)	(34,473)	4,351
Automobile Accident Insurance Act Rate Stabilization Reserve	(12,562)	(22,524)
	9,965	53,827
	$329,861	$316,153

(See accompanying notes)

STATEMENT OF RETAINED EARNINGS

Year Ended December 31	1982	1981
General Insurance		(Thousands of $)
Unappropriated Retained Earnings (Deficit)		
Balance Beginning of Year	$1,197	$2,226
Net Earnings (Loss)	(38,824)	1,213
Transfer from (to) Appropriated Retained Earnings - Catastrophe Reserve	3,154	(2,242)
Balance End of Year	(34,473)	1,197
Appropriated Retained Earnings		
Balance Beginning of Year	3,154	912
Transfer from (to) Unappropriated Retained Earnings - Catastrophe Reserve	(3,154)	2,242
Balance End of Year	—	3,154
Total Retained Earnings (Deficit)	$(34,473)	$4,351

(See accompanying notes)

STATEMENT OF OPERATIONS

Year Ended December 31	1982	1981
General Insurance		(Thousands of $)
Direct Net of Ceded Premiums Written	$94,874	$87,801
Premiums Earned	$91,478	$80,958
Investment Earnings	14,190	14,701
Other Income	748	974
Total Revenue	106,416	96,633
Claims Incurred	81,739	67,120
Commissions	17,385	15,663
Premium Taxes	2,975	2,642
General Administrative (Note 1)	10,812	9,742
Total Claims and Expenses	112,911	95,167
Income (Loss) Before Assumed Operations	(6,495)	1,466
Loss From Assumed Operations (Note 7)	(32,329)	(253)
Net Earnings (Loss)	$(38,824)	$1,213

(See accompanying notes)

STATEMENT OF OPERATIONS AND RATE STABILIZATION RESERVE

Year Ended December 31	1982	1981
A.A.I.A.		(Thousands of $)
Premiums Written	$170,400	$163,677
Premiums Earned (Note 5)	$161,869	$146,145
Investment Earnings	13,706	9,978
Total Revenue	175,575	156,123
Claims Incurred	141,437	123,674
Commissions	1,321	984
Premium Taxes	4,856	4,384
General Administrative (Note 1)	17,862	16,043
Automobile Research Centre Net Cost	137	107
Total Claims and Expenses	165,613	145,192
Net Increase to Rate Stabilization Reserve	9,962	10,931
Rate Stabilization Reserve: Balance Beginning of Year	(22,524)	(33,455)
Balance End of Year	$(12,562)	$(22,524)

(See accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31	1982	1981
Resources Provided		(Thousands of $)
General Insurance		
Net Earnings (Loss)	$(38,824)	$1,213
Adjustments to Convert Earnings to a Cash Basis:		
Loss (Gain) on Sale of Fixed Assets	18	(15)
Increases in Prepaids, Receivables, Payables and Deferred Accounts (Net)	38,222	9,504
Depreciation and Amortization	1,739	1,035
Resources Provided by General Insurance Operations	1,155	11,737
Proceeds from Disposal of Fixed Assets	67	48
Resources Provided by General Insurance	1,222	11,785
The Automobile Accident Insurance Act		
Net Increase to Rate Stabilization Reserve	9,962	10,931
Adjustment to Convert to a Cash Basis:		
Increases in Prepaids, Receivables, Payables and Deferred Accounts (Net)	18,122	29,219
Resources Provided by the A.A.I.A.	28,084	40,150
Total Resources Provided	$29,306	$51,935
Resources Applied		
Acquisition of Fixed Assets	$872	$2,867
Increase (Decrease) in Short Term Investments	4,882	(2,296)
Increase in Long Term Investments	8,552	51,364
Decrease in Equity Advances	15,000	-
Total Resources Applied	$29,306	$51,935

(See accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

The corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Investments

(a) Bonds and debentures having an amortized value of $123.9 million (1981—$123.8 million) and quoted market value of $117.6 million (1981—$94.1 million) have been accounted for on the "deferral and amortization" method. Under this method, realized gains and losses on disposals are deferred and amortized over the period to maturity of the security sold. The unamortized portion of realized gain or loss is included in the amortized value of bonds and debentures.

(b) Shares and convertible bonds, having a cost/amortized value of $24.0 million (1981—$14.6 million) and a quoted market value of $26.8 million (1981—$13.4 million), have been accounted for on the "fair value" method determined to be $23.6 million (1981—$14.4 million). This method values shares on a five-year moving average of market values, thereby allowing for a gradual movement towards current quoted market values.

(c) Mortgages are accounted for on the same basis as bonds and debentures held as long-term investments.

Premium Acquisition Cost

Premium taxes and commissions are charged to expense over the terms of the insurance policies to which such costs relate.

Depreciation

Depreciation on property, plant and equipment is provided on a straight-line basis commencing in the year in which the assets are placed in service at rates which are expected to amortize the cost over the service life of each asset.

Unpaid Claims - General

The provision for unpaid claims includes the estimated cost to the corporation of reported claims, and an estimate based on the claims settlement experience of the corporation of the cost of claims yet to be reported.

Capital Lease

The corporation as lessor has a lease agreement with a government department for a term of thirty years (twenty-eight years remaining) on property in Prince Albert. The lease transferred substantially all of the benefits and risks incident with the ownership of the property to the lessee. The investment in the capital lease reflects the present value of future lease payments discounted at an interest rate implicit in the lease.

Unearned Premiums

Premiums not yet taken into income represent the portion of the policy premiums relating to the unexpired term of each policy.

Investment Earnings

Investment earnings from insurance operations are allocated between the general business account and the A.A.I.A. account on the basis of the cash-flow analysis of the corporation. General business investment earnings are further distributed between the direct net of ceded business and the assumed operations.

Investment income from capital advances are attributed to the general business.

Foreign Exchange

Assets and liabilities in foreign currency are translated to Canadian dollars at the year-end rate of exchange. Unrealized gains and/or losses arising on translation are charged to operations in that year.

General Administrative Expenses

General administrative expenses, including claims adjusting costs incurred by the corporation in respect of the corporation's full operations, are allocated to the general business account and the Automobile Accident Insurance Act account in accordance with Order-in-Council No. 1235/68.

Included in general administrative expenses is $581,000 representing the costs of a corporate study concerning potential entry into the life insurance industry. Subsequent to the study, the corporation decided not to enter the life insurance business. Consequently, the study costs incurred have been charged to operations during 1982.

Superannuation

The corporation has a retirement plan covering its employees. Current service costs of this plan are charged to earnings on the basis of actuarial valuations made at least every third year. Prior year's service benefits are fully funded as the fund is in a surplus position per the actuarial valuation made as of December 31, 1980.

The corporation also has employees who are members of the Crown Investments Corporation Pension Plan 39562 Fund. The corporation matches employee contributions to this plan.

2. Status of the Corporation

Saskatchewan Government Insurance was established as a branch of the Public Service by the Government of Saskatchewan Insurance Act, 1944, reorganized pursuant to the Saskatchewan Government Insurance Act, 1946, and continues under the provisions of the Saskatchewan Government Insurance Act, 1980.

The corporation conducts a general insurance business under the provisions of its Act.

The accounts of the corporation are consolidated in the annual financial statements of the Crown Investments Corporation of Saskatchewan, the financial holding company of the Province of Saskatchewan.

3. Advances

Advances from the Crown Investments Corporation of Saskatchewan (C.I.C.) are non-interest bearing and repayment is at the discretion of C.I.C.

4. Property, Plant and Equipment

The components of the corporation's investment in property, plant and equipment as well as the related accumulated depreciation are:

Property, Plant & Equipment

(Thousands of $)

	Cost 1982	Acc. Depr. 1982	Net Book Value 1982	Net Book Value 1981
Land & Improvements	$3,064	$23	$3,041	$3,042
Buildings	29,373	3,830	25,543	26,412
Automobiles, Furniture and Equipment	5,002	1,661	3,341	3,077
Total	$37,439	$5,514	$31,925	$32,531

5. A.A.I.A.

The corporation administers a comprehensive automobile insurance program under the provisions of The Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan 1978). The A.A.I.A. program is regarded as a separate entity for financial accounting purposes. The term Rate Stabilization Reserve is used as a reflection of the purpose of the A.A.I.A. as a self-sustaining operation, the earnings of which are retained for the benefit of Saskatchewan's insured motoring public.

(a) Premiums written and earned include $6.6 million (1981—$19.7 million) representing actual proceeds from a portion of the Province of Saskatchewan's motive fuel tax which was designated by legislation as insurance premiums. The motive fuel tax was discontinued May 8, 1982.

(b) The provision for unpaid claims includes the estimated cost of reported claims, and an estimate based on the claims settlement experience of the corporation of the cost of claims yet to be reported.

6. Salvage Division

The corporation operates a Salvage division to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claims settlement process. In 1982, the total salvage sales amounted to $7,990,000 (1981—$7,111,000); gross earnings on sales $2,458,000 (1981—$2,111,000); and net earnings of $609,000 (1981—$891,000).

7. Assumed Reinsurance

The corporation underwrites a portfolio of assumed reinsurance, which accepts a portion of the risk of other insurers. In 1982, assumed premiums earned amounted to $13,498,000 (1981—$15,059,000); claims incurred were $44,565,000 (1981—$13,256,000); and the loss from assumed operations was $32,329,000 (1981—$253,000). The major portion of the 1982 assumed loss is attributable to claims arising from previous underwriting years.

8. Remuneration of Directors and Senior Officers

Directors of the corporation received remuneration totalling $28,330 in 1982 (1981—$13,750). The five senior officers of the corporation on staff at year-end received $317,377 in salaries for 1982 (1981—$493,386 representing nine senior officers).

9. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Other amounts due to (from), related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

10. Contingencies

The corporation is being sued for damages by former employees. In the event there was determined to be some liability on the part of the corporation resulting from this action, the amount involved, in the opinion of the corporation's legal counsel, would not be material to these financial statements.

11. Comparative Figures

For comparative purposes, certain 1981 balances have been reclassified to conform with the 1982 financial statement presentation.

POOR

QUALITY

ORIGINAL